



UNCOLLECTABLE ACCOUNTS

Accounting for Uncollectable Accounts Receivable

Businesses sell to customers on account to encourage sales.

Businesses conduct credit investigations of customers. **(Can they Pay??)**

Some accounts receivable will never be collected – **Uncollectable Accounts**



Uncollectable Accounts cont...

The amount that is uncollectable is recorded as an Expense – **Uncollectable Accounts Expense**

This type of transaction is considered a regular expense of doing business and does not affect the business' revenue.

The sale is not cancelled.



Estimating and Recording Uncollectable Accounts Expense

- **Sales on Account = Risk**
- **Accurate financial reporting requires that expenses be recorded in the fiscal period in which the expenses contribute to earning revenue.**
- **A business can record an estimated amount of Uncollectable Accounts Expense.**



Estimating and Recording Uncollectable Accounts Expense

Two Benefits for a Business

- 1.) Reports a balance sheet amount for Accounts Receivable that reflects the amount the business expects to collect in the future.
- 2.) Recognizes the expense of uncollectable accounts in the same accounting period in which the related revenue is recorded.



ALLOWANCE METHOD OF RECORDING LOSSES FROM UNCOLLECTIBLE ACCOUNTS

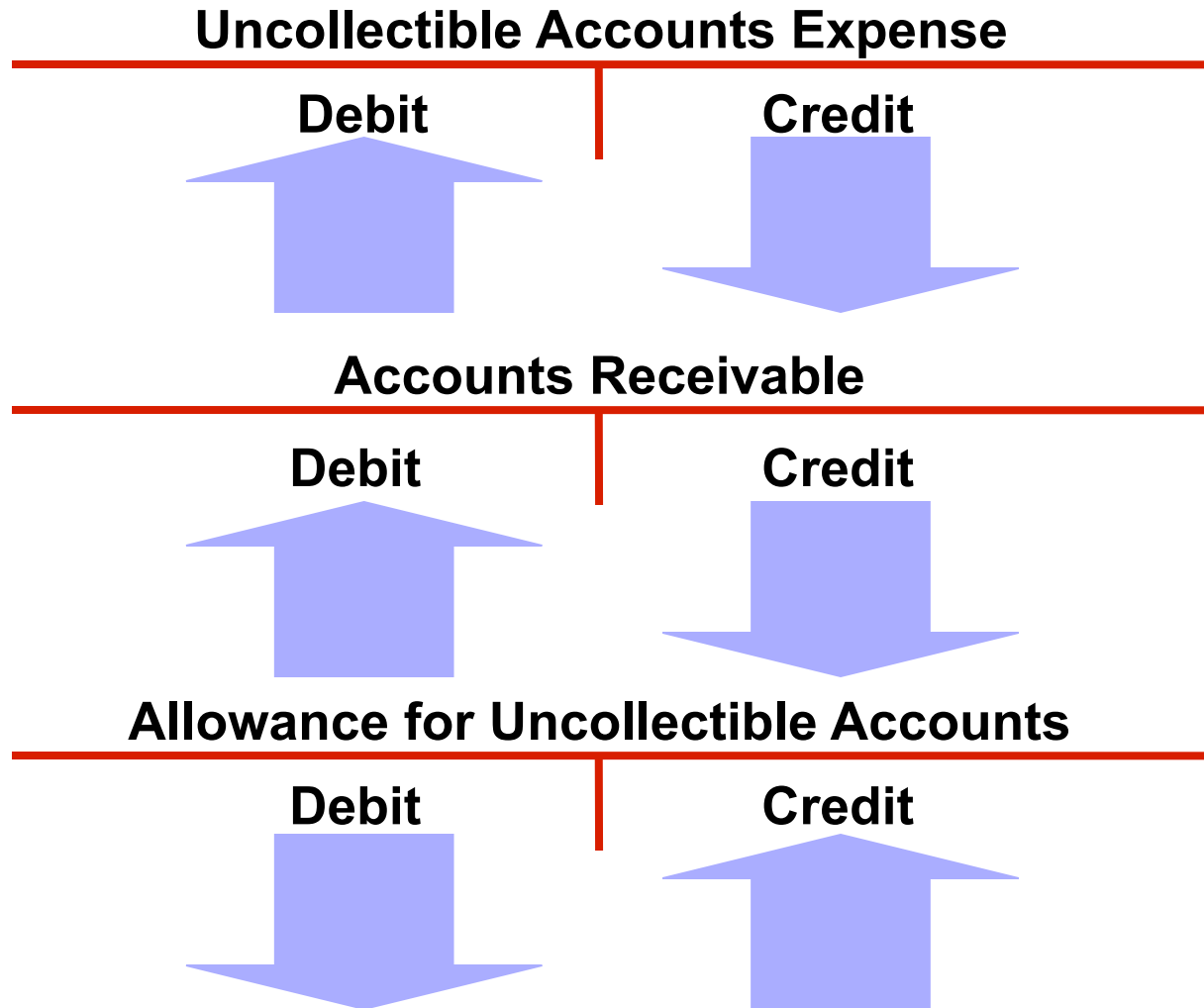
Book Value – The difference between an asset's account balance and its related contra account balance.

Book Value of Account's Receivable – The difference between the balance of **Account's Receivable** and its contra account, **Allowance for Uncollectable Accounts**.

This value reported on the balance sheet represents the total amount that the business expects to collect in the future.

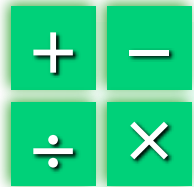


ALLOWANCE METHOD OF RECORDING LOSSES FROM UNCOLLECTIBLE ACCOUNTS



ESTIMATING UNCOLLECTIBLE ACCOUNTS EXPENSE

Many businesses use a percentage of total sales on account to estimate this expense.



| Total Sales on Account | × | Percentage | = | Estimate Uncollectible Accounts Expense |
|-----------------------------------|----------|-------------------|----------|--|
| \$982,800.00 | × | 1% | = | \$9,828.00 |

ANALYZING AND JOURNALIZING AN ADJUSTMENT FOR UNCOLLECTIBLE ACCOUNTS EXPENSE

| | | 1 | | 2 | | 3 | | 4 | |
|---------------|--------------------------------------|---------------|--|----------|--|----------------|----------------|--------|--|
| ACCOUNT TITLE | | TRIAL BALANCE | | | | ADJUSTMENTS | | | |
| | | DEBIT | | CREDIT | | DEBIT | | CREDIT | |
| 6 | Allowance for Uncollectible Accounts | | | 3 2 0 00 | | | (b) 9 8 2 8 00 | | |
| 48 | Uncollectible Accounts Expense | | | | | (b) 9 8 2 8 00 | | | |

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|-----------------|------|--|----------|------------|---------|---------|---------|---|
| | DATE | ACCOUNT TITLE | DOC. NO. | POST. REF. | DEBIT | CREDIT | | |
| 1 | | <i>Adjusting Entries</i> | | | | | | 1 |
| 4 | 31 | <i>Uncollectible Accounts Expense</i> | | | 982 800 | | | 4 |
| 5 | | <i>Allow. for Uncollectible Accts.</i> | | | | 982 800 | | 5 |

1. Enter and label credit amount.
2. Enter and label debit amount.
3. Record the adjusting entry.

POSTING AN ADJUSTING ENTRY FOR UNCOLLECTIBLE ACCOUNTS EXPENSE

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|-----------------|-----------------------------------|----------|------------|--------|--------|---------|
| DATE | ACCOUNT TITLE | DOC. NO. | POST. REF. | DEBIT | CREDIT | |
| 1 | Adjusting Entries | | | | | 1 |
| 4 | 31 Uncollectible Accounts Expense | 6165 | | 982800 | | 4 |
| 5 | Allow. for Uncollectible Accts. | 1130 | | | 982800 | 5 |

1. Debit

2. Credit

***This does not impact accounts receivable**

| ACCOUNT Accounts Receivable | | | | | | ACCOUNT NO. 1125 | |
|-----------------------------|------|------------|---------|---------|----------|------------------|--|
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | | |
| | | | | | DEBIT | CREDIT | |
| Dec. 31 | | S50 | 7586900 | | 13517400 | | |
| 31 | | CR49 | | 6271600 | 7245800 | | |

| ACCOUNT Allowance for Uncollectible Accounts | | | | | | ACCOUNT NO. 1130 | |
|--|------|------------|-------|--------|---------|------------------|--|
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | | |
| | | | | | DEBIT | CREDIT | |
| Dec. 27 | | G14 | 42000 | | | 32000 | |
| 31 | | G15 | | 982800 | | 1014800 | |

| ACCOUNT Uncollectible Accounts Expense | | | | | | ACCOUNT NO. 6165 | |
|--|------|------------|--------|--------|---------|------------------|--|
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | | |
| | | | | | DEBIT | CREDIT | |
| Dec. 31 | | G15 | 982800 | | 982800 | | |

